



## YES, THERE *IS* A BUDGET AFTER ALL TAX REDUCTION COMPLIES WITH EXISTING RESOLUTION

A favorite argument of those who oppose the Ways and Means Committee's tax reduction measure – scheduled for House floor debate Thursday – is: "Congress doesn't have a budget in place yet."

But the argument is wrong – for two main reasons.

1) The Congressional Budget Act does contain a rule against considering legislation that initiates changes in spending or tax law for a year in which no budget is in place. This prohibition would apply to tax reductions that started in fiscal year 2002. But because the Ways and Means tax provisions are *retroactive*, their initial impact falls in fiscal year 2001 – and there is a budget in place for this year. On 13 April 2000, the House adopted a budget for fiscal year 2001 (H.Con.Res. 290). That budget still applies, until a new one is adopted. Hence, there is no point of order against the Ways and Means tax reductions.

2) The budget was later adjusted for larger Congressional Budget Office [CBO] estimates of non-Social Security tax surpluses (see chart). As adjusted, the budget called for \$284 billion in tax reduction over 5 years (through 2005).

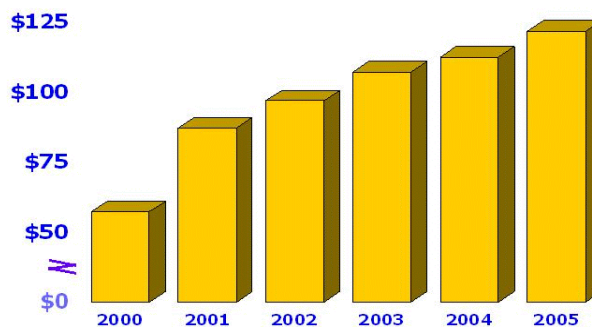
Congress last year did try to enact some of the tax reductions envisioned in this existing budget resolution. It passed a bill eliminating the marriage penalty, and also passed legislation eliminating the death tax, the part of the code that heavily taxes the estates of individuals – often small-business owners and farmers – when they die. President Clinton vetoed both bills. Indeed, although a small tax reduction bill was enacted at the end of last year, taxpayers were denied the significant tax relief called for under last year's budget resolution – which remains in force today.

The Ways and Means bill – called the Economic Growth and Tax Relief Act of 2001 – reduces individual income tax rates across the board, so anyone who pays income taxes would instead see larger paychecks. The bill reduces tax rates applied to an individual's income. The bill reduces tax rates and simplifies the tax brackets. It would create a new 10-percent rate applying to the first \$12,000 for joint returns (\$6,000 for singles) and keeps the 15-percent rate for the rest of the bracket. The bill merges the current tax code's 28-percent and 31-percent rates into one, 25-percent rate. It replaces the current 36-percent and 39.6-percent rates with a single, 33-percent rate. Over 5 years, these provisions will let taxpayers keep \$258 billion more of their own earnings.

At the same time, the House will have remained consistent with its budgeting rules. Far from adopting a tax cut without a budget, it will have further filled out the budget that already exists.

### Growth in CBO Tax Surplus Projections

(Fiscal year; billions of dollars)



Figures reflect the increase in on-budget surplus projections in reestimated fiscal year 2001 budget resolution.

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